

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 13780 01 OF 03 221736Z

67

ACTION COME-00

INFO OCT-01 EUR-08 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 DODE-00 EB-04 FPC-01 H-01 INR-05 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01 PA-01 PRS-01

USIA-06 OPIC-03 /084 W

----- 078495

R 221722Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5010

INFO AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

LIMITED OFFICIAL USE SECTION 01 OF 03 LONDON 13780

E.O. 11652: N/A

TAGS: ETRD, UK

SUBJECT: IMPACT OF HMG NORTH SEA EQUIPMENT PROCUREMENT  
POLICIES

REF: (A) STATE 202255, (B) LONDON 11050, (C) LONDON 9104,  
(D) LONDON 13501, NOV. 19, 1973, (E) LONDON 5913, MAY 21,  
1973, (F) LONDON 5952, MAY 21, 1973, (G) STATE 21753,  
FEBRUARY 6, 1973 (H) LONDON 2723, MARCH 7, 1973,  
(I) LONDON 2865, MARCH 9, 1973.

BEGIN SUMMARY

FOLLOWING IS EVALUATION OF COMMERCIAL IMPACT WHICH  
RECENT BRITISH GOVERNMENT MEASURES HAVE HAD WITH REGARD  
TO NORTH SEA OIL. BRITISH POLICIES HAVE EVOLVED  
CONSIDERABLY, SINCE FIRST ROUND OF LICENSES AWARDED IN  
1964, IN RESPONSE TO SUCCESSION OF STRONG, AND SOMETIMES  
CONFLICTING, PRESSURES. INITIALLY POLICIES WERE  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 13780 01 OF 03 221736Z

DESIGNED MAXIMIZE EXPLORATION AND PRODUCTION ASAP.

MORE RECENTLY, POLICIES HAVE BEEN DIRECTED AT SECURING LARGER PUBLIC SHARE OF NORTH SEA MANAGEMENT AND REVENUES, IMPROVED COMPETITIVE CLIMATE FOR BRITISH FIRMS, AND BETTER PROTECTION OF ON-SHORE ENVIRONMENT. IN GENERAL, BRITISH SOURCES SAY UK FIRMS, STARTING FROM RELATIVELY SMALL BASE, APPEAR TO HAVE INCREASED SHARE OF NORTH SEA MARKET. HOWEVER US FIRMS, WHICH REPRESENT SUBSTANTIAL ELEMENT AMONG NON-BRITISH FIRMS, HAVE FOUND FEW SPECIFIC CAUSES FOR COMPLAINT IN THIS EXPANDING MARKET FOR SUPPLIES, SERVICES AND EQUIPMENT.

END SUMMARY

1. BRITISH POLICIES WITH REGARD TO NORTH SEA OIL HAVE EVOLVED CONSIDERABLY FROM THE TIME WHEN EXISTENCE OF NORTH SEA RESERVES WAS UNKNOWN AND TECHNOLOGY NECESSARY TO ITS DEVELOPMENT WAS UNCERTAIN, WHILE FINANCIAL RISKS WERE GREAT AND CAPITAL REQUIREMENTS HEAVY. PRIMARY OBJECTIVE OF HMG WAS TO ENCOURAGE MAXIMUM EXPLOITATION AS EARLY AS POSSIBLE. AS SIZE OF PETROLEUM RESERVES BECAME APPARENT, AND AS POSSIBILITY OF REDUCING BRITISH DEPENDENCE ON IMPORTS BECAME ATTAINABLE, PRESSURES TO INCREASE BENEFITS TO BRITISH FIRMS AND PUBLIC INTENSIFIED. GROWING SCOTTISH NATIONALISM DEMANDED CONCENTRATION OF THESE BENEFITS IN SCOTLAND, AND AT SAME TIME EMPHASIZED FEARS THAT THE OIL INDUSTRY WOULD CAUSE SUBSTANTIAL, IRREVOCABLE, AND NOT NECESSARILY DESIRABLE, CHANGES IN SCOTTISH COUNTRY-SIDE, ECONOMY AND SOCIETY.

2. MEASURES ADOPTED TO MEET THESE PRESSURES WERE DESIGNED TO STRENGTHEN ABILITY OF BRITISH FIRMS TO SUPPLY GOODS AND SERVICES FOR OFFSHORE OIL INDUSTRY, AND MORE RECENTLY TO GIVE GOVERNMENT A LARGER SHARE IN MANAGEMENT OF OFFSHORE OPERATIONS AND OF PROFITS FROM NORTH SEA OIL. AT THE SAME TIME PROVISION FOR NATIONALIZATION OF LAND NEEDED FOR ONSHORE RIG CONSTRUCTION SITES WILL FACILITATE NEGOTIATIONS BETWEEN COMPANIES AND LOCAL AUTHORITIES OVER TERMS OF PLANNING PERMISSION DESIGNED TO PROTECT THE SCOTTISH ENVIRONMENT WHILE PROVIDING SITES FOR THE COMPANIES. MOST OF THESE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 13780 01 OF 03 221736Z

MEASURES HAVE, OR MAY HAVE IN THE FUTURE, COMMERCIAL IMPLICATIONS FOR COMPANIES INVOLVED. HOWEVER, GIVEN THIS COMPLEX BACKGROUND, IT IS USEFUL TO DISTINGUISH BETWEEN MEASURES WHICH HAVE A SIGNIFICANT COMMERCIAL MOTIVATION - THOSE REGARDING PROCUREMENT PRACTICE FOR INSTANCE - AND THOSE ADOPTED PRINCIPALLY FOR POLITICAL, SOCIAL OR REGIONAL, AS WELL AS ECONOMIC, REASONS.

3. WITH RESPECT TO PROCUREMENT, HMG - IN THE FACE OF  
SERIOUS POLITICAL PRESSURES FROM PARLIAMENT, SCOTLAND  
AND BRITISH INDUSTRY - HAS LIVED UP TO ITS ASSURANCE  
TO EMBASSY AND USG THAT BRITISH WOULD NOT PURSUE A  
CRUDE BUY-BRITISH POLICY (REFTELS E-I). OFFSHORE  
SUPPLIES OFFICE (OSO) OF DEPARTMENT OF ENERGY IN  
FOLLOWING UP QUARTERLY REPORTING ON PLANNED PURCHASES  
HAS, AS EXPECTED, EXERTED ITS INFLUENCE TO INSURE  
THAT BRITISH FIRMS RECEIVE WHAT IT CONSIDERS TO BE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 13780 02 OF 03 230126Z

67

ACTION COME-00

INFO OCT-01 EUR-08 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 DODE-00 EB-04 FPC-01 H-01 INR-05 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01 PA-01 PRS-01

USIA-06 OPIC-03 /084 W

----- 083522

R 221722Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5011

INFO AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

LIMITED OFFICIAL USE SECTION 02 OF 03 LONDON 13780

A "FULL AND FAIR OPPORTUNITY TO COMPETE." IN PRACTICE  
THIS HAS MEANT INTERMITTENT OSO INTERVENTION URGING  
OIL COMPANIES IN SPECIFIC INSTANCES TO REVIEW CAREFULLY  
OR RECONSIDER PROPOSED PRICE AND DELIVERY TERMS AS WELL

AS TECHNICAL CAPABILITY OF PROSPECTIVE SUPPLIERS IN ORDER TO MAKE SURE BIDS OF BRITISH FIRMS HAVE BEEN ADEQUATELY CONSIDERED. WE UNDERSTAND THAT IN GREAT MAJORITY OF SUCH CASES OIL COMPANIES CONCERNED HAVE CONSIDERED BRITISH ALTERNATIVES, AND THEN ELECTED TO FOLLOW THEIR ORIGINAL COURSE DESPITE DISSATISFACTION EXPRESSED BY DEPARTMENT OF ENERGY OFFICIALS. ANY INSINUATION THAT SUCH BEHAVIOR WOULD BE TAKEN INTO ACCOUNT WHEN AWARDS COME TO BE MADE DURING NEXT ROUND OF NORTH SEA LICENSING APPARENTLY HAS HAD LITTLE EFFECT ON OIL COMPANY PURCHASING PRACTICES. (IN LAST 18 MONTHS ONLY ONE PROSPECTIVE U.S. SUPPLIER HAS ALLEGED TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 13780 02 OF 03 230126Z

EMBASSY THAT IT HAD LOST AN ORDER OR CONTRACT AS A CONSEQUENCE OF OSO PRESSURE.) THIS IS NOT TO SAY HOWEVER THAT THE DESIRE TO MAINTAIN GOOD PUBLIC AND GOVERNMENTAL RELATIONS COMBINED WITH GROWING FAMILIARITY OF BRITISH INDUSTRY WITH REQUIREMENTS OF OFFSHORE INDUSTRY HAVE NOT PREDISPOSED OIL COMPANIES TO GIVE BRITISH FIRMS A MORE THAN SYMPATHETIC HEARING. BEST ESTIMATES (FROM INFORMED PRIVATE OBSERVER) ARE THAT BRITISH INDUSTRY HAS WITHIN TWO YEAR PERIOD INCREASED ITS 25 TO 30 PERCENT SHARE OF OFFSHORE SUPPLIES AND SERVICES MARKET OF 500 MILLION POUNDS ANNUALLY TO ABOUT 50 PER CENT OF TOTAL. BRITISH FIRMS HAVE TAKEN ADVANTAGE OF WORLDWIDE SELLERS' MARKET FOR RIGS, PLATFORMS AND OTHER OFFSHORE EQUIPMENT IN WHICH US AND OTHER FOREIGN SUPPLIERS HAVE BECOME INCREASINGLY PREOCCUPIED WITH FILLING BACKLOG OF ORDERS ACCRUING ELSEWHERE IN INTERNATIONAL OIL MARKET. EMBASSY WILL CONTINUE TO MONITOR SITUATION TO ENSURE THAT POSSIBLE ADVERSE EFFECTS OF HMG PROCUREMENT POLICIES DO NOT IN FACT MATERIALIZE. IN THIS CONNECTION WE WOULD APPRECIATE RECEIVING DETAILED INFORMATION ON ROBERT SHAW CONTROLS AND SOLAR CASES MENTIONED IN REFTEL A.

4. HMG SCHEME FOR OFFSHORE SUPPLIES INTEREST RELIEF GRANTS WAS INTRODUCED IN LATE 1973 TO REDUCE COST OF SUPPLIER OR BUYER CREDITS OBTAINED FROM BRITISH BANKS TO FINANCE SUPPLY OF UK GOODS AND SERVICE TO COMPANIES DOING OFFSHORE DEVELOPMENT. PURPOSE OF SCHEME WAS TO EQUALIZE DISPARITY OF FINANCING WHICH PUT BRITISH SUPPLIERS AT A DISADVANTAGE COMPARED TO FOREIGN SUPPLIERS WHO BENEFITED FROM CREDIT GUARANTEES FROM INSTITUTIONS SUCH AS EXIM BANK (REFTEL B). OSO INFORMS US EXTENSIVE NEGOTIATIONS ON DETAILS OF SCHEME'S ACTUAL OPERATION DELAYED IMPLEMENTATION FOR A CONSIDERABLE PERIOD. NONETHELESS, APPROXIMATELY 100 MILLION POUNDS OF CONTRACTS NOW HAVE BEEN REGISTERED ALTHOUGH NO FUNDS

WHATSOEVER HAVE BEEN PAID OUT. OSO IS SATISFIED WITH INDICATION OF SUBSTANTIAL DEGREE OF INTEREST EXHIBITED THUS FAR BUT BELIEVES SCHEME IS NOT ENOUGH TO PUT UK SUPPLIERS ON SAME BASIS AS FOREIGN COMPETITION. EMBASSY IS FORWARDING BY AIRGRAM REVIEED VERSION OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 13780 02 OF 03 230126Z

GRANTS SCHEME ISSUED AUGUST 1974.

5. BOTH LABOR AND PREVIOUS CONSERVATIVE GOVERNMENTS HAVE PROPOSED NATIONALIZATION OF PLATFORM CONSTRUCTION SITES IN ORDER TO AVOID PROLIFERATION OF UNNECESSARY FACILITIES AND OVERCOME INORDINATE DELAYS BY SCOTTISH PLANNING AUTHORITIES. LOCAL SCOTTISH OFFICIALS HAVE PROCRASTINATED OVER OR DENIED SITE APPROVALS BECAUSE OF WIDESPREAD CONCERN ABOUT VISUAL, SOCIAL AND ENVIRONMENTAL IMPACT OF DEVELOPMENT OF DEEPWATER FACILITIES IN SCENIC HIGHLANDS AREA. AS CONSEQUENCE OF FAILURE TO OVERCOME THESE OBJECTIONS, DURING PAST YEAR SEVERAL ORDERS FOR CONCRETE PLATFORMS, WHICH REQUIRE DEEPWATER SITES, HAVE BEEN AWARDED TO NORWEGIAN FACILITIES. HMG IS HOPING ITS PLAN TO NATIONALIZE THREE OR FOUR SPECIFIC SITES, MAINLY IN CLYDE ESTUARY, WITH ASSURANCE THAT REST OF SCOTLAND IS TO REMAIN A "GREEN BELT" WILL ENABLE CONTRACTORS OF ALL NATIONALITIES BASED IN BRITAIN TO OBTAIN SITES ON WHICH TO BETTER THEIR POOR RECORD IN COMPETING FOR CONCRETE PLATFORM BUSINESS. GIVEN SUCCESS OF US-OWNED, BRITISH-BASED FIRMS SUCH AS BROWN AND ROOT (HIGHLAND AND FABRICATORS) AND J. RAY MCDERMOT IN STEEL PLATFORM COMPETITION AND APPARENT INABILITY OF FACILITIES LOCATED IN US TO COMPETE FOR CONCRETE DESIGNCONSTRUCTION NATIONALIZATION OF PLATFORM SITES SHOULD NOT GIVE RISE TO CONCERN ON PART OF USG. DESIGNATION OF SPECIFIC

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 13780 03 OF 03 221734Z

ACTION COME-00

INFO OCT-01 EUR-08 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 DODE-00 EB-04 FPC-01 H-01 INR-05 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01 PA-01 PRS-01

USIA-06 OPIC-03 /084 W

----- 078530

R 221722Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5012

INFO AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

LIMITED OFFICIAL USE SECTION 03 OF 03 LONDON 13780

SITES MAY ALSO RELIEVE US FIRMS SEEKING TO CONSTRUCT PLATFORMS IN SCOTLAND FROM NECESSITY FOR PROTRACTED DISPUTES WITH CONSERVATIVE, ENVIRONMENTALLY-MINDED LOCAL AUTHORITIES WITH ATTENDANT ADVERSE PUBLICITY.

6. AS NOTED REFTEL (A), ESTABLISHMENT OF A BRITISH NATIONAL OIL COMPANY (BNOC) WITH 51 PER CENT MANAGEMENT SHARE COULD GIVE HMG GREATER LEVERAGE TO DIRECT EQUIPMENT PROCUREMENT TO BENEFIT OF DOMESTIC SUPPLIERS. HOWEVER, EXTENT TO WHICH A BNOC WOULD BE GIVEN NECESSARY LEGISLATIVE MANDATE AND SUPERVISORY STAFF AUTHORIZED AND ABLE TO EXERT SUCH LEVERAGE IS AN IMPORTANT QUESTION WHICH PROBABLY WILL NOT BE DECIDED FOR AT LEAST SEVERAL MONTHS IF NOT LONGER.

7. PROPOSED CHANGES IN UK TAX POLICY MAY HAVE A LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 13780 03 OF 03 221734Z

BEARING ON INVESTMENT PATTERNS ASSOCIATED WITH NORTH SEA PROJECTS, NOT ON US EQUIPMENT SALES. UNTIL TAXATION AND MAJORITY PUBLIC PARTICIPATION QUESTIONS DISCUSSED IN EMBASSY'S PRELIMINARY ASSESSMENT OF JULY 1974 WHITE PAPER ON UK OFFSHORE OIL AND GAS POLICY (REFTEL C) ARE RESOLVED, THERE WILL BE CONSIDERABLE UNCERTAINTY AS TO TERMS AND CONDITIONS OF FINANCING OFFSHORE DEVELOPMENT PROJECTS. THIS WILL APPLY

ESPECIALLY TO SMALLER COMPANIES LARGELY DEPENDENT ON  
BANK FINANCING OF PRODUCTION FACILITIES.

ANNENBERG

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, EXPLORATION, PETROLEUM, NORTH SEA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 OCT 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** shawdg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LONDON13780  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740301-0722  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19741028/aaaaaxau.tel  
**Line Count:** 335  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION COME  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** (A) STATE 202255, (B) LONDON 11050,, (C) LONDON 9104  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** shawdg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 JUN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26 JUN 2002 by martinml>; APPROVED <06 MAR 2003 by shawdg>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** IMPACT OF HMG NORTH SEA EQUIPMENT PROCUREMENT POLICIES  
**TAGS:** ETRD, ENRG, BTIO, UK, US  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005